

From: First Service Credit Union, Sid Zahn
Subject: Reg I I - Debit card Interchange

Comments:

February 22, 2011

Federal Reserve Board
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue NW
Washington, DC 20551

Dear Federal Reserve Board:

Let me preface this letter by stating I am an employee of First Service Credit Union. I have been in the credit union industry for 27 years, going back to graduation from college in 1983. Credit unions have been my life and I cannot help but feel that this piece of legislation is going to significantly affect the way credit unions continue to do business. Not to mention the effects it will have on the everyday credit union member. Hopefully in the following paragraphs I will be able to accomplish my goal of making you more aware.

First let me start with the consumer side of this issue. To some extent, all consumers will be affected by limiting the debit card interchange fees credit unions / financial institutions can charge. These fees are used to offset the expense we have to offer this type of service. In 2010 alone we had to write-off approximately \$13,700 in losses due to fraudulent activity. The merchants don't have to do this. They can accept a card without having to worry about whether or not the charge is going to come back on them, the liability is put on the credit union / financial institution. With the reduced interchange fees we will be forced to increase other fees, reduce our debit card program or eliminate the program entirely.

We are concerned that the proposal does not include provisions to enforce the small issuer exemption. We urge the Fed to use its authority to reinforce the small issuer exemption and ensure that it works as Congress intended.

The proposed debit interchange rates also concern us, especially if the establishment and maintenance of a two-tiered structure cannot be assured. The Fed should consider all costs of operating a debit interchange system to the maximum extent allowable by law, including all fraud prevention costs such as the cost of new technology that reduces potential fraud.

Even if a two-tiered system is permitted and works in practice, small issuers will be disadvantaged if the provisions on routing and exclusivity that allow merchants to choose how debit card transactions are processed are not implemented properly. We therefore urge the Fed to adopt routing "Alternative A," which would only require issuers to provide debit cards that can be used over two unaffiliated networks, such as a PIN-based

network and an unaffiliated signature-based network. Requiring more than two networks is inconsistent with statutory requirements and would place an unreasonable regulatory burden on our credit union that could negatively impact service to our members.

Sincerely,

Sid Zahn